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TAGS: [ETRD](#) [ECON](#) [PREL](#) [BK](#) [SR](#) [HR](#)  
SUBJECT: CROATIA FIRM ON CEFTA POSITION

Classified By: Econ Officer Nicholas Berliner for reasons 1.4 b/d.

¶1. (C) Summary: Croatian officials have expressed regret at the inability to reach agreement with Serbia and BiH over CEFTA, but are firm in their view that any departure from the terms of existing bilateral agreements in the CEFTA context that does not result in greater trade liberalization is unacceptable. Croatia cites the Joint Declaration signed by the regional prime ministers in Bucharest in April 2006 in which the parties agreed to "build on the bilateral trade concessions provided for in the existing bilateral free trade agreements..." as the basis for this position, maintaining that acquiescence to Serbian and Bosnian demands for what Croatia considers protectionist measures runs counter to the objectives of the CEFTA process and the spirit of the WTO. According to the Croatian Ministry of Economy, Croatian exports to both Serbia and Bosnia have fallen as a result of non-compliance with existing bilateral agreements, while imports from both countries have risen. In the Croatian view, pressure to accept trade barriers in CEFTA is motivated not by free trade principles, but by larger political objectives to support Serbia and BiH. While supportive of both neighbors, the GOC does not believe that it should be asked to pay economically, as its own economic growth is still fragile fifteen years after the war and threatened by chronically large trade deficits. End Summary.

¶2. (C) Croatian Assistant Minister of Economy Igor Lucic told econ off recently that Croatia was firm in its position of rejecting protectionist measures sought by Serbia and BiH to reach agreement on CEFTA. Despite wanting to reach a deal by the December deadline, Croatia believes that a bad deal with Serbia and BiH on CEFTA is worse than no deal at all. He said the deal proposed by Serbia to drop excise taxes on cigarettes in favor of higher customs duties was not acceptable, as it would triple existing duties. Likewise, Lucic noted that Croatia has reluctantly tolerated BiH's non-compliance with its bilateral agreement, but could not countenance BiH's formalizing tariffs on a range of agricultural products within the context of CEFTA.

¶3. (C) According to Lucic, Croatian industry and agriculture has already suffered as a result of Serbian and Bosnian non-compliance with existing agreements. In the case of BiH, he said that Croatia has lost about USD 150 million in exports, while imports from BiH have risen sharply. In the case of Serbia, Lucic estimated the damage to the Croatian economy at USD 26 million. He pointed out that neither the Government of Croatia nor any Croatian business has filed suit against either BiH or Serbia over their failure to abide by the terms of the bilateral trade agreements, which they could legally do.

¶4. (C) Although the Croatian economy is strong by regional standards, growth and income levels still lag behind European levels. In large part, economic growth has been underpinned

by increased consumer demand, fueling an ever widening trade imbalance - Croatia's 2005 exports amounted to only 47 percent of imports. Coupled with high levels of debt, Croatia's trade imbalance could endanger economic stability, which has led the GOC to seek ways of boosting Croatia's exports. As Lucic underscored, agreeing to a trade agreement that would potentially reduce Croatian exports to two markets where the country has been relatively successful would be against national economic interests and a very difficult sell politically. The feeling in Zagreb is that the political objectives of assuaging Serbia before the impending loss of Kosovo and propping up BiH are being given greater consideration than principles of free trade in some quarters of Brussels. While Croatia sees its interest in the long-term stability of its neighbors, it does not believe that it should be asked to pay an economic price for this when it suffers from high unemployment and its own economy is yet to recover from the effects of the 1991-1995 war.

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